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TO RUEHC/SECSTATE WASHDC PRIORITY 9184
INFO RUCNWTO/WORLD TRADE ORGANIZATION COLLECTIVE PRIORITY
RUEHBJ/AMEMBASSY BEIJING PRIORITY 2936
RUEHRL/AMEMBASSY BERLIN PRIORITY 1685
RUEHFR/AMEMBASSY PARIS PRIORITY 6616
RUEHRO/AMEMBASSY ROME PRIORITY 2328
RUEHUL/AMEMBASSY SEOUL PRIORITY 9617
RUEHBY/AMEMBASSY CANBERRA PRIORITY 3363
RUEHOT/AMEMBASSY OTTAWA PRIORITY 0048
RUEHNAG/AMCONSUL NAGOYA PRIORITY 5712
RUEHNH/AMCONSUL NAHA PRIORITY 1000
RUEHOK/AMCONSUL OSAKA KOBE PRIORITY 2475
RUEHKS/AMCONSUL SAPPORO PRIORITY 9155
RUEHFK/AMCONSUL FUKUOKA PRIORITY 8659
RUEATRS/TREASURY DEPT WASHDC PRIORITY
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RHMCSUU/DEPT OF ENERGY WASHINGTON DC PRIORITY
RUEHBS/USEU BRUSSELS PRIORITY
RHEHAAA/WHITE HOUSE WASHDC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RULSDMK/DEPT OF TRANSPORTATION WASHINGTON DC PRIORITY
RUEAEPA/HQ EPA WASHDC PRIORITY

UNCLAS SECTION 01 OF 03 TOKYO 000221

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PASS TO COMMERCE FOR H. MISISCO, K. ROTH, D. BARZDUKAS
PASS TO EPA FOR S. FULTON
PASS TO DOT FOR L. LAWSON, C. MILTTELHOLTZ

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SUBJECT: JAPAN TO ANNOUNCE WHICH U.S. VEHICLES QUALIFY FOR
ECO-CAR SUBSIDY PROGRAM

REF: 09 TOKYO 2926

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SENSITIVE BUT UNCLASSIFIED. CONTAINS BUSINESS SENSITIVE
INFORMATION.

1. (SBU) Summary: Japan is expected to announce February 3 at 7:00PM Tokyo time which U.S. vehicle models will qualify under its recently revised eco-car subsidy program. In response to USG and U.S. industry criticism, the GOJ announced January 19 it will begin accepting foreign fuel efficiency data to determine eligibility of low-volume foreign imports for the program. However, despite interventions by the Embassy and visiting USTR officials, including Ambassador Marantis earlier this week, the GOJ opted to not consider USG requests to use the U.S. Environmental Protection Agency (EPA) combined fuel economy estimate to determine the eligibility of U.S. models. Instead, the GOJ will utilize the EPA city measurement. Although U.S. automakers are pleased that some of their autos may qualify for the subsidy, most local media coverage has portrayed U.S. autos as inefficient and as beneficiaries of political pressure brought to bear on the GOJ by the USG. End summary.

2. (SBU) The GOJ program, begun April 2009 and extended through October 2010, offers a cash subsidy of approximately \$4,500 to consumers who scrap older vehicles and purchase models that meet certain fuel efficiency standards. Because most U.S. autos are imported to Japan under a low-volume import procedure (the "Preferential Handling Procedure" or

PHP) that does not utilize Japanese fuel efficiency data, no U.S. autos qualified for the original Japanese "cash for clunkers" program. However, the GOJ revised the program and announced January 19 that cars imported to Japan under the PHP would qualify for the cash subsidy. Ministry of Economy, Trade and Industry (METI) officials informed econoffs February 3 that the GOJ would use the EPA city mode to determine eligibility, and that the list of qualifying foreign autos would be released to the public at approximately 7:00PM Tokyo time the same day. With this revision, METI has calculated 47 percent of all U.S. autos imported to Japan under the PHP will qualify for the subsidy.

In the public announcement, which METI has told us it intends to post "quietly" on its webpage (www.meti.go.jp/english/index.html) with no formal media release, only the names of the models that qualify for the subsidy will be listed, but not the percentage of total imported autos nor the fuel efficiency calculation method.

¶3. (SBU) According to METI, eight types of U.S. autos, listed below, will qualify for the cash subsidy:

General Motors

--Cadillac CTS 2.8 (ABA-X322A)
--Cadillac CTS Sport Wagon 3.6 (ABA-X322B)
--Cadillac CTS Sport Wagon 3.0 (ABA-X322C)
--Cadillac STS 3.6 (ABA-X295S)
--Hummer H3V8 (ABA-T345E)

Ford

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--Ford Escape Limited/XLT (ABA-LFAL3P)

Chrysler

--Chrysler Grand Voyager (ABA-RT38)
--Dodge JC SXT (ABA-JC27)

¶4. (SBU) In the run-up to the decision, METI Vice Minister Hiroyuki Ishige presented the following nonpaper to Deputy USTR Marantis in Tokyo in an effort to explain the rationale for the GOJ's fuel efficiency calculation method.

Begin text:

The mode for "eco-car subsidy"

1) From the standpoint of expanding options for achieving eco-friendly society while stimulating economy, PHP cars have been decided to be covered by Japanese eco-car subsidy scheme.

2) The U.S. "City mode" incorporates freeway run with high fuel efficiency.

3) Since conversion of modes among different countries is technically impossible, we made a decision to adopt the most equivalent modes to Japan, where the ratio of downtown driving vs. highway driving is 1:3, in the U.S. and Europe when we include PHP imported cars under our subsidy scheme. They are U.S. "City mode" and European "NEDC mode."

4) If we directly adopt Japanese mode to U.S. PHP imported cars, no car would enjoy the benefit. However, when we adopt these modes, approximately 50 percent of U.S. cars and 40 percent of European cars could be covered by subsidy scheme in terms of sales.

5) The results show the fairness among chosen modes.

End text.

15. (SBU) In a separate meeting February 2, Japan-based Detroit 3 automakers told USG officials that due to differences in weight classifications, driving styles, and test methods, significant differences exist between Japanese, U.S., and European fuel efficiency calculation methods. Although U.S. automakers would prefer that as many U.S. autos qualified for the program as possible, Japan-based Detroit 3 representatives privately stated they agree with METI that the EPA city mode most closely corresponds to the Japanese fuel efficiency measurement. One representative expressed concern that the Japanese weight classification method makes heavier cars appear less fuel efficient. (Note: U.S. autos imported into Japan are mostly larger, heavier, high-end "lifestyle" vehicles. End note.) As a result, he noted, the Japanese eco-car subsidy program reinforces an image that U.S. autos are inefficient.

16. (SBU) Comment: Although the Japanese eco-car subsidy program initially excluded all foreign autos imported under the PHP, the media coverage of this issue has instead focused on the fact that U.S. autos did not meet Japanese fuel

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efficiency standards and now will receive an "exception" due to U.S. political pressure. Although the U.S. automakers are pleased that some of their autos will qualify for the subsidy, media attention unfortunately appears to have reinforced a recurring image problem the U.S. auto industry in Japan faces: that American cars are not fuel efficient. GOJ officials and industry players have expressed their hope this issue does not develop into a major trade irritant between the U.S. and Japan, particularly in light of challenging issues in other areas of the bilateral relationship.
ROOS